

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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E.O. 11652: NA

TAGS: EFIN, PFOR, EEC

SUBJECT: EC APPROVES EXTENSION OF CREDIT TO ITALY

1. SUMMARY: AT THEIR MEETING IN BRUSSELS ON NOVEMBER 18, THE EC FINANCE MINISTERS APPROVED THE CONVERSION OF THE SHORT-TERM BALANCE OF PAYMENTS SUPPORT PRESENTLY EXTENDED TO ITALY INTO A MEDIUM-TERM FACILITY OF 3-1/2 YEARS AVERAGE DURATION. CITING ITS OWN BALANCE OF PAYMENTS DIFFICULTIES, BRITAIN ELECTED NOT TO PARTICIPATE IN THE MEDIUM-TERM EXERCISE. THE BRITISH, HOWEVER, UNDERTOOK TO CONTINUE TO MAKE AVAILABLE TO ITALY, ON A BILATERAL BASIS AND FOR RENEWABLE PERIODS OF 90 DAYS, SUPPORT IN AN AMOUNT EQUIVALENT TO ITS SHARE OF THE MEDIUM-TERM LOAN. THE FINANCE MINISTERS DISCUSSED THE ECONOMIC AND FINANCIAL SITUATION IN THE COMMUNITY AND HAVE DEVELOPED THREE AGENDA ITEMS TO BE CONSIDERED AT THE UPCOMING PARIS SUMMIT.

AT THE RESTRICTED LUNCHEON WHICH PRECEDED THE COUNCIL MEETING, THE MINISTERS HAD A BRIEF AND, WE UNDERSTAND, VERY GENERAL DISCUSSION OF SECRETARY KISSINGER'S CHICAGO SPEECH AND HIS PROPOSALS FOR RECYCLING. END SUMMARY.

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2. MEDIUM-TERM CREDITS FOR ITALY: THE EC FINANCE MINISTERS APPROVED THE CONVERSION FROM SHORT TH MEDIUM-TERM (3-1/2 YEARS) OF THE BALANCE OF PAYMENTS SUPPORT PRESENTLY EXTENDED TO ITALY. THE UK OPTED OUT OF THE CONVERSION PLAN, SAYING IT FELT UNABLE TO ENTER INTO ANY COMMITMENTS OF SUCH A LONG DURATION BECAUSE OF ITS PRESENT AND ANTICIPATED BALANCE OF PAYMENTS DIFFICULTIES (ALSO, PRESUMABLY BECAUSE OF ITS RENEGOTIATION EFFORTS). HOWEVER, THE UK DID AGREE TO CINTINUE TO PRVIDE SUPPORT IN AN AMOUNT EQUAL TO WHAT ITS MEDIUM-TERM SHARE WOULD HAVE BEEN BUT ON A RENEWABLE 90-DAY BASIS. THUS, THE AMOUNT OF MEDIUM-TERM SUPPORT WILL BE ONLY 1,159,2 MILLION UNITS OF ACCOUNT (UA--ONE UA EQUALS 1.20635). OF THIS, FRANCE AND GERMANY WILL PROVIDE 403.3 MILLION UA EACH; THE BELGIAN-LUXEMBOURG ECONOMIC UNION AND THE NETHERLANDS EACH 134.4 MILLION UA; DENMARK 60.4 MILLION UA AND IRELAND 23.4 MILLION UA. THE UK WILL ADD ITS SHARE OF 403.3 MILLION UA IN RENEWABLE SHORT-TERM SUPPORT, MAKING TOTAL COMMUNITY FUNDING 1.562,500 UA, OR APPROXIMATELY \$1,885 MILLION. THE AVERAGE DURATION OF THE LOAN IS TO BE 3-1/2 YEARS AND THE INTEREST RATE REPORTEDLY IS TO BE THE AVERAGE OF THE IMF RATE AND THE NEW YORK COMMERCIAL RATE (ABOUT 7-1/2 PERCENT).WE UNDERSTAND THAT THE COUNCIL DISCUSSED THE CURRENT ITALIAN ECONOMIC AND MONETARY SITUATION IN SOME DETAIL AND LAID DOWN CONDITIONS FOR THE COMMUNITY LOAN SIMILAR TO THOSE DESCRIBED IN PARAGRAPH TWO OF REF A.

3. PREPARATION FOR THE SUMMIT: THE MINISTERS SPENT SEVERAL HOURS REVIEWING THE ECONOMIC SITUATION IN THE COMMUNITY AND CONSIDERING POSSIBLE TOPICS FOR DISCUSSION AT THE FORTHCOMING SUMMIT IN PARIS. EACH MEMBER STATE ADVANCED WHAT ARE NOW BECOMING KNOWN AS "TRADITIOONAL CONCERNS": BRITIAN PRESSED ITS BUDGET CASE; IRELAND, SUPPORTED BY ITALY, URGED ACTION ON THE REGIONAL FUND, ETC. AS A RESULT OF THIS DISCUSSION, THE MINISTERS HAVE FORMULATED THREE ITEMS FOR SUMMIT CONSIDERATION FROM WHICH, IN THE WORDS OF COUNCIL PRESIDENT FOURCADE, THEY HOPE TO RECEIVE "THE POLITICAL ORIENTATION NECESSARY OR PROCEED FURTHER." THESE AGENDA ITEMS ARE LISTED BELOW IN THE PRIORITY ORDER SET BY THE CUNCIL;

A) METHODS FOR IMPROVING HARMONIZATION ("CONCERTATION") OF THE SHORT AND MEDIUM-TERM ECONOMIC AND FINANCIAL POLICIES OF THE LIMITED OFFICIAL USE

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MEMBER STATES.

B) METHODS FOR STRENGTHENING EUROPEAN UNION BY REINFORCING THE PRESENT INTRA-COMMUNITY ECONOMIC AND MONETARY LINKS, OR BY THE CREATION OF NEW ONES. UNDER THIS HEADING DISCUSSION WOULD FOCUS ON CONCERTED FLOATING PROPOSALS FOR A NEW UNIT OF ACCOUNT, ETC.

C) THE NEED FOR THE COMMUNITY TO ADOPT A COMMON ATTITUDE TOWARD THE REST OF THE WORLD ON A NUMBER OF ECONOMIC AND MONETARY PROBLEMS. THIS HEADING WOULE ENCOMPASE DISCUSSIONS ON ISSUES SUCH AS THE

ROLE OF GOLD, THE NEED TO REFORM THE IMF, THE PROBLEMS OF RE-CYCLING. THE MINISTERS HAVE GIVEN THE COMMITTEE OF PERMENT REPRESENTATIVES THE TASKS OF REFINING AND ELABORATING THESE POINTS PRIOR TO THEIR FURTHER CONSIDERATION BY THE FOREIGN MINISTERS AT THE POLITICAL COOPERATION MEETING WHICH IS TO TAKE PLACE IN BRUSSELS ON NOVEMBER 25.

4. REACTION TO SECRETARY'S CHICAGO SPEECH: WE UNDERSTAND THAT THERE WAS A BRIEF AND FARILY GENERAL DISCUSSION OF PETRO-DOLLAR RECYCLING PROPOSALS MADE BY SECRETARY KISSINGER IN CHICAGO. (SECRETARY SIMON'S NOVEMBER 18 SPEECH HAD NOT YET BEEN DELIVERED.) THESE PROPOSALS, THE ESSENTIAL ELEMENTS OF WHICH WERE REPORTEDLY DISCUSSED IN OCTOBE WHEN THE FRENCH BRIEFED THE MEMBER STATES ON THE CAMP DAVID MEETING, WERE NOT CONSIDERED IN DETAIL. AT HIS PRESS CONFERENCE FOLLOWING YESTERDAY'S MEETING FOURCADE INDICATED THAT THE KISSINGER PROPOSALS AND OTHER SUGGESTIONS FOR HANDLING THE RECYCLING PROBLEM WOULD BE CONSIDERED AT THE SUMMIT UNDER THE AGENDA HEADING ON EXTERNAL ECONOMIC RELATIONS.

5. MISCELLANEOUS: FINALLY, THE COUNCIL GAVE ITS AGREEMENT IN PRINCIPLE TO THE PAPER PRESENTED BY THE COMMISSION ON THE ECONOMIC SITUATION IN THE COMMUNITY (REF B).

6. FINANCE MINISTERS ARE EXPECTED TO MEET IN BRUSSELS AGAIN ON DECEMBER 16.MYERSON

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